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SUBJECT: BELARUS: IMF SEES NEED FOR ADDITIONAL RELIEF

Summary

1. (SBU) Charge met May 11 with the visiting IMF mission head and IMF resrep to discuss the IMF's stand-by agreement (SBA) with Belarus and the overall economic situation. Jarvis reported that the GOB was working well with the IMF and was largely on track with requirements, but that the GOB reserves were low and worse than expected growth in Russia and the EU -- Belarus' primary markets -- justified additional IMF support. End summary.

2. (SBU) IMF mission head Chris Jarvis and resrep Nataliya Kolyadina described Belarus as generally being in compliance with the IMF's conditions, although the current level of reserves (estimated at \$3.3 billion) is below the IMF's target. Jarvis cited a financing gap and noted that negative growth in the economies of Russia (-4%) and the EU (-6%) -- both major markets for Belarusian exports -- was much greater than expected at the end of 2008 when the current SBA had been agreed. He offered praise for the cooperation and expertise of the Ministry of Finance and a number of officials at the National Bank.

3. (SBU) In terms of steps being taken or being considered, Jarvis said that the IMF was encouraging the GOB to consider a further devaluation of about 5%; with the negative public reaction in January 2009 to the IMF-mandated devaluation of over 20%, he acknowledged that for political reasons the GOB was more likely to let the Belarusian ruble (BYR) slide rather than make a sudden devaluation at this point. Jarvis added that monetary policies were being improved; he expressed satisfaction that interest rates for hard-currency accounts was now capped at 8%, while interest rates for BYR rates were being raised to 20% to encourage movement from hard currency to the BYR.

4. (SBU) It is evident that the GOB has asked for additional funds as an augmentation of the SBA, but Jarvis would not say how much was being contemplated (or had been requested). He expressed the hope that the GOB would leverage IMF assistance to obtain credits from the World Bank, Russia, the EBRD, and other donors. Charge pressed Jarvis on the issue of Russian credits, noting that such assistance tended to come with many strings attached, a point with which Kolyadina agreed; Jarvis confirmed that the IMF mission was encouraging the GOB to seek Russian help.

5. (SBU) Citing USG interest in structural reform, Jarvis also said that the IMF was working to encourage greater progress towards privatization. He hoped that some state-owned assets would be prepared for sale by February-March 2010, when the SBA is due to expire. Jarvis agreed with Charge that a new privatization agency, rather than existing state control structures, would be the best mechanism for privatization efforts.

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